

# Role of Financial Literacy in Driving Financial Inclusion and Economic Growth of Women in Odisha

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## Abstract:

The study examines the relationship between financial literacy, financial inclusion, and the economic growth of rural self-help group women in Odisha. Financial literacy has emerged as a vital component in promoting financial inclusion, enabling individuals to access and utilize financial services effectively. Specifically, focusing on rural SHG women, this research investigates how financial literacy influences their economic growth by empowering them with the knowledge and skills necessary for financial decision-making. The study explores the impact of financial inclusion, facilitated by financial literacy, on the economic well-being of these women. Through a comprehensive review of existing literature and empirical analysis i.e., EFA, CFA & SEM, this research aims to shed light on the significance of financial literacy in promoting economic empowerment and sustainable development among rural SHG women. The findings of this study can contribute to policy formulation and the design of targeted interventions aimed at enhancing financial literacy and fostering economic growth in rural communities.

**Keywords:** Financial Literacy, Financial Inclusion, Economic Growth, SHG

## 1. Introduction

Financial literacy plays a crucial role in promoting financial inclusion, particularly among rural self-help group

women in Odisha. By empowering these women with knowledge and skills related to managing their finances, financial literacy has the potential to positively

impact their economic growth (Adetunji & David-West, 2019). It explores the relationship between financial literacy, financial inclusion, and the subsequent effects on the economic growth of rural SHG women. It highlights the significance of equipping these women with the necessary tools and knowledge to make informed financial decisions, enhance their financial capabilities, and participate actively in economic activities. Self-help groups are a prime example of the idea of social inclusion and the power that comes from unity. These organizations have helped group members and also saved lives (Visram *et al.*, 2012). For everyone involved, establishing economic empowerment through self-help groups has been a difficult task. Participating in self-help organizations has changed how society views women (Swain and Wallentin, 2009). Members of urban self-help groups have successfully increased their income and used loan monies in appropriate ways. However, in rural areas, the typical self-help group member has difficulty finding work (Dhake and Narkhede, 2019). Understanding the implications of financial literacy on the economic empowerment of rural SHG women can contribute to the development of effective policies and initiatives aimed at fostering sustainable economic growth in these communities.

## 2. Literature Reviews

This study reveals the existing literature in the fields of financial literacy, financial inclusion, and economic growth of rural women as follows

### **Economic Growth**

Women's training, marketing, and manufacturing abilities have been significantly improved by the timely provision of financial services to micro-enterprises. As a result, these women are now independent in terms of their abilities to earn money, develop their skills, obtain an education, and maintain a stable lifestyle (Arul and Packirisamy, 2015). Economic inclusion has improved the lives of those who are less fortunate and helped to reduce poverty by making vital financial resources like cash, advances, and insurance available to them (Lal, 2018). The government's financial inclusion activities in the Agra region have successfully connected people, improving the socioeconomic circumstances for women in previously underserved areas (Gangal and Singh, 2019).

### **Financial Inclusion**

Financial inclusion has a favourable effect on a variety of factors, including job creation, per capita income, GDP, and increased competition among banks to deliver better services (Shaban *et al.*, 2020). In the context of agrarian reforms during the Andhra Pradesh crises, commercial microfinance encountered significant challenges that hindered its effective operation (Taylor, 2012). There is a link between financial inclusion and economic growth, policymakers, governments, and bankers are encouraged to advance financial inclusion (Nizam *et al.*, 2020).

Age, education, income, family structure, and accessibility to markets

are just a few of the demographic variables that have been significantly impacted by the participation of women in self-help groups. Self-help groups have significantly boosted women's economic power and access to leadership positions in society (Joshi, 2019). In order to enhance the financial inclusion of PTGs, the banking sector must expand its access to financial services. This can have a significant impact on the overall socioeconomic conditions of this marginalized population. When PTGs have the opportunity to access financial services, they are one step closer to achieving socioeconomic growth (Nandru & Rentala, 2019).

### **Financial Literacy**

Enhancing financial literacy awareness is an urgent requirement across the nation, particularly in rural areas where literacy levels are lower and access to financial services is limited. Furthermore, the concerning state of women's financial literacy is evident through their consistently poor performance in this area (Bendre & Singh, 2017). There exists a strong relationship between micro-entrepreneurship and the empowerment of women. The act of empowering women yields tangible positive effects on both the economic and social fronts. The long-term sustainability of various groups relies heavily on the establishment of fresh economic endeavours (Chatterjee *et al.*, 2018). The Government of India can initiate substantial investments in financial literacy, thereby leading to a substantial increase in financial inclusion. Moreover, FL can enhance

the effectiveness of FI initiatives in regions where access to formal financial services has already been established (Rastogi & E, 2018). Financial education has witnessed significant enhancements owing to recent developments in the financial markets, alongside demographic, economic, and legislative transformations. Among the nations evaluated, India holds the second-highest position in terms of financial literacy (Nash, 2012). While numerous households manage to navigate the complexities of investing and find satisfactory solutions, others make costly mistakes. These errors manifest in various forms, such as neglecting opportunities to refinance mortgages, maintaining inadequately diversified high-risk portfolios, and refraining from participating in volatile asset markets (Campbell, 2006). Financial literacy plays a substantial role in positively influencing individual savings. Moreover, factors such as gender, income, and educational level have a beneficial impact on one's ability to save (Jonubi & Abad, 2013).

### **3. Objectives of the Study**

1. To measure the impact of financial inclusion on the economic growth of women in Odisha.
2. To assess the impact of financial literacy on the economic growth of women in Odisha.

### **4. Hypotheses**

H01: financial inclusion has no significant impact on the economic growth of women in Odisha.

H02: financial literacy has no significant impact on the economic growth of women in Odisha.

### 5. Research Methodology

In this study, the survey method has been used for collecting primary data. The sample size is taken from 499 respondents of SHGs members in Odisha. The stratified random sampling method has been used for collecting samples from the target population. The empirical methodology used for data analysis in this survey. Statistical tools including EFA, CFA & SEM were used in this study. The variables used for the study i.e., Distance of Banks, ATMs & Post offices, Availability of SHG loans,

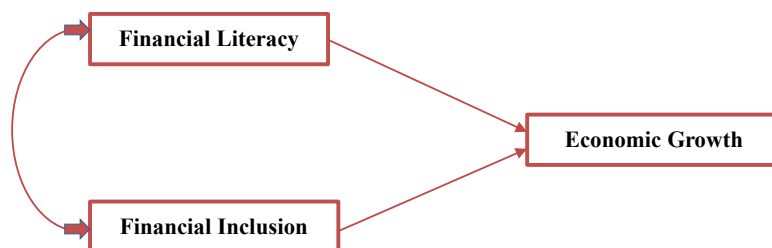
Ease opening of bank a/c through SHG-bank linkage, Lower interest rate in SHG loans, Usage of banking services i.e., Deposit, Withdrawal, Transfer & locker facility, Financial Attitude, Financial Behaviour, Financial Awareness & Financial Education of people, saving habits, credit mobilization for income generating activities & standard of living of SHG families, etc. The Exploratory analysis has found three constructs Financial Inclusion (FI), Financial Literacy (FL) & Economic Growth (EG). Confirmatory Factor Analysis has been applied for satisfying the reliability & validity of the factors used in this study.

**Table 1: Literature Support for Factors**

Factors	Source
Financial Literacy (FL)	Bendre & Singh, 2017; Rastogi & Ragabiruntha, 2018; Nandru & Rentala, 2019
Financial Inclusion (FI)	Bendre & Singh, 2017 Rastogi & Ragabiruntha, 2018; Nandru & Rentala, 2019
Economic Growth (EG)	Bendre & Singh, 2017; Rastogi & Ragabiruntha, 2018; Nandru & Rentala, 2019

Table 1 indicates the literature support for the factors used in this survey such as FL, FI & EG.

**Figure1: Theoretical Framework**



Source: Authors' Finding

Figure 1 indicates the proposed model of the Theoretical Framework used in this study.

**Table 2: Sample Characteristics of SHG Members (n=499)**

Measure	Items	Frequency	Percentage
Age	Below 25 years	145	29.05
	25-35 years	210	42.08
	35-45 years	92	18.44
	Above 45 years	52	10.42
Education	Matriculation	143	28.66
	Intermediate	135	27.05
	Graduation	101	20.24
	Others	120	24.05
Income (Monthly Rs)	Below 10000	305	61.12
	10000- 20000	132	26.45
	20000- 30000	50	10.02
	Above 30000	12	2.41

Source: Primary Data

Table 2 indicates the demographic details of self-help group members in this survey. Here, responses are collected from 499 SHG women in Odisha. The average monthly income of major participants is below Rs 10000 because of SHG members involved in MSE activities. The women are starting small businesses by taking loans from SHG at the initial stage.

## 6. Results & Discussion

**Table 3: Outcome of Reliability Analysis**

Cronbach's Alpha	N of Items
.948	12

Source: SPSS Output

Table 3 indicates the reliability statistics of 12 variables. The calculated Cronbach alpha value is .948 which is greater than .7 in social sciences research. It means data collected from the respondents give consistent results. The KMO value

is .917, which indicates the sampling adequacy of the data set in this survey.

**Table 4: Result of Rotated Component Matrix**

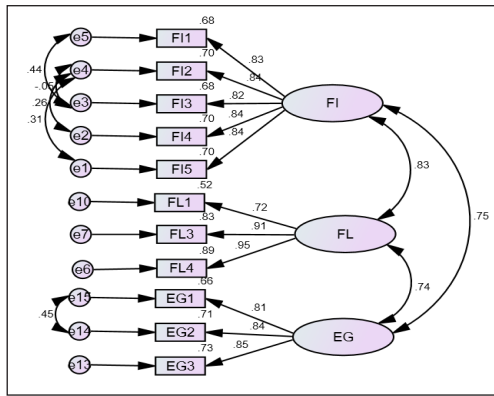
	Component		
	FI	EG	FL
FI2	.829		
FI5	.811		
FI4	.771		
FI3	.718		
EG2		.839	
EG1		.824	
EG3		.711	
FL1			.827
FL2			.818
FL4			.618
FL3			.607

Source: SPSS Output

Table 4 indicates the outcome of the rotated component matrix from EFA.

This study has found three factors i.e., Financial Inclusion (FI), Economic Growth (EG) & Financial Literacy (FL). It found that FI has 5 variables, EG 3 variables & FL 4 variables from exploratory factor analysis.

**Figure 2: Final Order Confirmatory Factor Analysis**



Source: Amos Output

Figure 2 indicates the graphical presentation of the final-order Confirmatory Factor Analysis. The study demonstrates the satisfaction of absolute fit measures, including CMIN/DF- 3.754 (Marsh & Hocevar, 1985), GFI- 0.955 (Joreskog & Sorbom, 1984), AGFI- 0.917, and RMSEA- 0.074 (Browne & Cudeck, 1992). Additionally, incremental fit measures are met, with values exceeding 0.95 for NFI- 0.972 (Bentler & Bonett, 1980), TLI- 0.969 (Bentler & Bonett, 1980), and CFI- 0.980 (McDonald & Marsh, 1990). The satisfaction of parsimony fit measures is also observed, as the PNFI value is above 0.60 (0.637). The CFA model is Fit in this study.

**Table 5: Output of Convergent Validity & Discriminant Validity**

Con-structs	CR	AVE	MSV	ASV
FI	0.9185	0.6929	0.6889	0.6257
FL	0.8984	0.7491	0.6889	0.6182
GE	0.8757	0.7014	0.5625	0.555

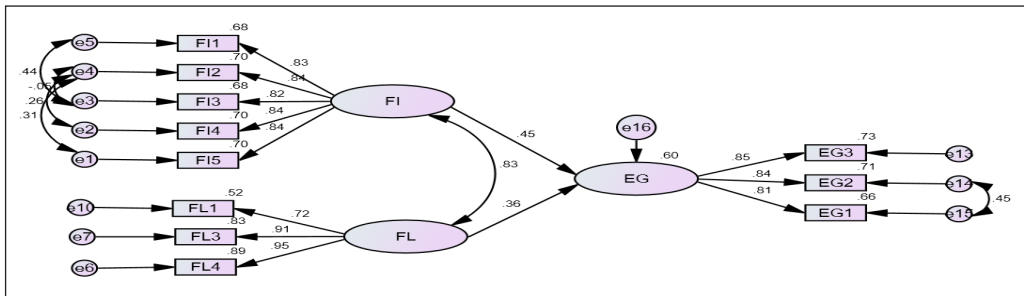
Source: Authors' Findings

Note: FI-Financial Inclusion, FL- Financial Literacy, EG- Economic Growth

Table 5 indicates the results of the convergent validity and discriminant validity. The Composite Reliability (CR) values for the constructs of Financial Inclusion (FI), Financial Literacy (FL), and Economic Growth (EG) are reported as 0.9185, 0.8984, and 0.8757, respectively which exceeds the threshold value of 0.7, indicating good fit measures for convergent validity. The Average Variance Extracted (AVE) values for FI, FL, and EG are reported as 0.6929, 0.7491, and 0.7014, respectively which are greater than the threshold value of 0.5, also indicating good fit measures for convergent validity. Additionally, the third condition of convergent validity is satisfied, as the CR values for all constructs (FI, FL, and EG) are higher than their respective AVE values, which is satisfactory.

It also found that  $AVE > MSV$  &  $AVE > ASV$ , satisfy the conditions for discriminant validity.

Figure 3: Structural Equation Model



Source: Amos Output

Figure 3 indicates the graphical presentation of the Structural Equation Model. The model assesses the impact of the independent variables 'Financial Inclusion' on the supply side & 'Financial Literacy' on the demand side, indicating .45 & .36 respectively impact

on the dependent variable 'Economic Growth'. Additionally, the study examines FI & FL highly correlated both demand & supply & overall 60% impact on the Economic Growth of the people of Odisha

Table 6: Summary of Structural Equation Model

Hypothesis				Estimate	S.E.	C.R.	P	Result
H <sub>01</sub>	EG	<---	FI	.439	.078	5.592	***	Rejected
H <sub>02</sub>	EG	<---	FL	.288	.063	4.606	***	Rejected
R <sup>2</sup>	.60							

Source: Amos Output

Table 6 indicates the summary of the Structural Equation Model. Here, both the null hypotheses, H<sub>01</sub> and H<sub>02</sub>, are rejected, indicating that there is a significant impact of financial inclusion on the economic growth of women as well as financial literacy have a significant impact on the economic growth of women in Odisha. The value of R<sup>2</sup> is reported as 0.60, indicating an overall impact of 60% from both exogenous variables, Financial Inclusion (supply side) and Financial Literacy (demand

side), on the endogenous variable of Economic Growth.

## 7. Conclusion

The study highlights the critical role of financial literacy in driving financial inclusion and its subsequent impact on the economic growth of rural self-help group women in Odisha. Through the acquisition of financial knowledge and skills, these women are empowered to make informed financial decisions, access financial services, and actively



participate in economic activities. By promoting financial inclusion, financial literacy equips rural SHG women with the tools to manage their finances effectively, enhance their entrepreneurial abilities, and improve their overall economic well-being. The findings of this research indicate that financial literacy plays a significant role in enabling rural SHG women to break free from the constraints of financial exclusion. As they gain access to formal financial services and products, these women can expand their businesses, invest in income-generating activities, and improve their savings and investment practices. This, in turn, contributes to their economic growth, poverty reduction, and overall development. The factors of financial inclusion have

45% impact on the economic growth of Odisha, as well as the factors of financial literacy i.e., Financial Attitude, Financial Awareness & Financial Education of people, have 36% impact on the economic development of rural people. In this study, it concluded that demand & supply factors such as financial literacy & financial inclusion jointly 60% reflecting the economic progress of women in Odisha. Overall, by recognizing the interplay between financial literacy, financial inclusion, and economic growth, stakeholders can work together to empower rural SHG women, unlock their potential, and pave the way for inclusive and sustainable development.

### Appendix 1: Selection of Constructs

Codes	Variables	Construct
FL1	Financial Attitude of People	Financial Literacy (Bendre & Singh, 2017; Rastogi & Ragabiruntha, 2018; Nandru & Rentala, 2019)
FL2	Financial Behaviour of people	
FL3	Financial Awareness of people	
FL4	Financial Education of People	
F1	Distance of Banks, ATMs & Post office	Financial Inclusion (Nandru & Rentala, 2019)
F2	Availability of SHG loans	
F3	Ease opening of bank a/c through SHG-bank linkage	
F4	Lower interest rate in SHG loans	
F5	Usage of banking services i.e., Deposit, Withdrawal, Transfer & locker facility, etc.	
EG1	Standard of living improved for SHG families	Economic Growth (Nandru & Rentala, 2019; Bendre & Singh, 2017)
EG2	Investing SHG credits for revenue-generating activities	
EG3	Saving habits increase through SHGs	



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